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CONTACT: GLENN BRIERE  
(617) 727-6200, EXT. 123

**DeNUCCI SAYS LAX SECURITY AND CONTROLS  
LEAVE STATE LOTTERY OPEN TO THEFT AND ABUSE**

State Auditor Joe DeNucci said today that a pervasive disregard for proper financial controls and security at the Massachusetts State Lottery Commission has left the State Lottery vulnerable to theft, abuse and the loss of millions of dollars in revenue.

In a 125-page transition audit presented to State Treasurer Shannon P. O'Brien, DeNucci outlined a history of poor management practices at the Lottery that led to such problems as falsified identification by Lottery winners and potential misuse of scratch tickets.

"As a \$3.2 billion business, the Lottery has to do a better job of managing its fiscal operations," DeNucci said. "The taxpayers deserve the highest level of accountability, and so does every person who buys a lottery ticket."

DeNucci detailed the audit's major findings as follows:

**Inadequate identification of prize winners.** According to DeNucci's audit, the Lottery's failure to obtain satisfactory identification from Lottery winners led to numerous suspicious activities, including the use of false names, Social Security numbers and addresses by certain people to cash \$2.2 million in winning tickets. One person, for example, cashed 319 tickets over \$600 with a total worth of \$412,000 last year, which would have required almost daily visits to a Lottery office. Another person cashed 149 tickets worth \$237,000.

In addition, the top 10 multiple prize winners won 842 times for a total of \$1.8 million. Five of these seemingly "fortunate" people submitted false identification. Also, about 1,800 W2-G tax forms totaling \$7 million sent to "winners" by the Lottery were returned as undeliverable. Noting that only six of every 100,000 tickets yield a \$1,000 to \$5,000 prize, DeNucci said these frequent winners would have had to buy hundreds of thousands to millions of tickets in order to beat those odds.

DeNucci said the use of false information to cash tickets is identity theft that leads to evasion of income tax and child support obligations and welfare fraud.

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**Breakdowns in controls over Instant Game tickets.** Although Instant Game tickets account for two-thirds of all Lottery sales (\$2 billion annually), DeNucci said the Lottery's information system was unable to guarantee that all winning tickets came from activated books sold at licensed sales locations, making them a target for theft and abuse. Using data provided by the Lottery to test its controls, DeNucci's office established that the Lottery was unable to confirm the validity of 29,000 winning Instant Game tickets over \$600 last year because the Lottery did not record the tickets' book numbers. This flaw remained undetected by the Lottery for more than a year before it was corrected last October, after it was brought to their attention by DeNucci's office.

Furthermore, DeNucci's audit cited a lack of security over unsold instant tickets that are returned to the Lottery. Although activated tickets can be cashed until they are destroyed, DeNucci said his audit team observed partial and full ticket books being returned to unsecured areas at Lottery headquarters in plastic bags or wrapped with elastic bands.

**Lack of controls and security over Lottery sales offices.** DeNucci said the lack of controls over the Lottery's own sales offices became apparent after his office was notified of a \$597 theft two years ago. A subsequent review of Lottery records revealed that \$129,344 was actually undeposited and unaccounted for at the Braintree headquarters.

The recently reported shortage of \$24,000 in the Lottery's Boston Game Room was discovered after DeNucci's office reported to the Lottery that undeposited cash was observed in regional offices. In addition, DeNucci found delays of up to 180 days between the collection of funds at the Boston office and their date of deposit.

Also, DeNucci found \$309,000 in uncashed prize checks over one year old. A number of these checks were handwritten and required only one signature. Further audit work could not be performed because these checks had been forwarded to the Treasury's Unclaimed Check Fund, which is under investigation by the Attorney General.

**Unsatisfactory collection procedures.** In reporting that more than \$15 million was owed the Lottery by sales agents, DeNucci said the Lottery's collection procedures allow some delinquent agents to go for months without paying their debts – in effect, amounting to an interest-free loan by the state. DeNucci said collections are so lengthy and deficient that it is even possible for agents to sell activated tickets after their sales authority has been revoked.

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When Lottery officials visited the store of one agent, they found no inventory for \$234,000 in instant tickets and determined that he owed that amount. The Lottery allowed the agent to pay back the \$234,000 two days later in order to keep his license. In another case, a

sales agent entered into a partnership without the Lottery's knowledge. Although the partnership owed the Lottery nearly \$100,000, the agent's partner was able to cash a winning lottery ticket for \$50,000.

Also, in an attempt by DeNucci's office to verify outstanding cash owed the Lottery by a sample of 76 sales agents, over one-third of the sample, totaling \$1.4 million, was returned by the U.S. Postal Service as undeliverable.

DeNucci also noted that the prior Lottery management failed to cooperate with his auditors. Contrary to state law, the Lottery did not make all requested records available to the audit staff at reasonable times, provided easily altered photocopies of some records rather than original documents, and limited the audit staff's access to key Lottery personnel. Without these restrictions, DeNucci said, other reportable conditions might have been revealed.

However, DeNucci said he is confident the State Lottery, with new management, can establish the safeguards needed to fix the serious problems identified in his audit.

"This report is intended to provide Treasurer O'Brien and the Lottery management with a plan for corrective action," DeNucci said. "I'm confident my recommendations will help Treasurer O'Brien as she implements her improvements in all aspects of the Lottery's operation."

